

Energy Efficient Mortgage

Financial benefits for consumers purchasing or renovating energy efficient homes

October 2002

The Fannie Mae Energy Efficient Mortgage (EEM) is one of the most important products in our Housing and Environment Initiative, a comprehensive menu of mortgage options designed to promote the design, construction, and purchase of more efficient homes.

The EEM recognizes that energy efficient homes cost homeowners less to operate on a monthly basis than standard homes because they use less energy. Home buyers who choose energy efficient homes can afford to spend more on their housing expenses because they will likely spend less on their energy costs. The EEM allows borrowers to qualify for a larger mortgage as a result of the energy savings. The EEM benefits those buying new, energy efficient homes or those purchasing existing homes that need energy improvements.

Benefits for Lenders

- Qualify borrowers for larger mortgages, even gain approval for those borrowers who may not have qualified for an inefficient home
- Improve competitive position as a market leader in new product innovation
- Create opportunities for you to expand your business and possibly enhance your cross-selling capabilities
- No delay in closing – new homes are easily evaluated before the closing date and any retrofits to existing homes can take place after closing
- Utilizes automated underwriting
- Play a leadership role in the “green building” movement

Benefits for Borrowers

- Increase borrower qualifying income
- Energy savings reduce monthly operating costs
- More comfortable home in all seasons and climates
- 100% of energy improvements can be financed – up to 15% of the value of the home for existing homes and 5% of the home’s value for new construction
- Quality assurance with required third-party energy rating report

Eligible Borrowers

Borrowers must purchase an energy efficient home or a home that could benefit from energy efficiency improvements. There is no limit on the borrower’s income for eligibility.

Required Borrower Contribution

Three percent borrower contribution may come from borrowers own funds and/or other flexible sources, including an approved eligible Community Seconds[®] source, gifts, or grants. If there are no contributions from external sources, the borrower must contribute 3 percent from his or her own funds. Utility and manufacturer rebates can be applied toward the transaction.

Treatment of Energy Savings

Monthly energy savings are added to borrower income in the qualification calculation. The value of the energy efficiency measures (referred to below as the Energy Savings Value), as determined by a third party energy rater, is added to the home's appraised value.

Loan-to-Value

Maximum loan-to-value (LTV) is 100 percent and combined loan-to-value (CLTV) is 105 percent. Loan-to-value ratios are based on the value of the property. For new construction, LTV is based on the lesser of

1. the purchase price, or
2. the appraised value of the Property plus the Energy Savings Value as determined through third-party verification.

For retrofits, LTV is based on the lesser of

1. purchase price plus the Energy Savings Value as determined through third-party verification, or
2. appraised value prior to the installment of the energy measures plus the Energy Savings Value.

Eligible Properties

Properties must be one-family, owner-occupied home. New homes must be deemed energy efficient by the energy rating report. As an alternative, the home can meet standards for a prescriptive program, such as EPA's EnergyStar Building Option Package. Existing homes must be upgraded with cost-effective efficiency measures.

Qualifying Ratios

41% single ratio if the loan is underwritten manually. There are no specific qualifying ratios when using Desktop Underwriter (DU).

Reserve Requirements

No minimum reserve required when using DU; reserve amount will vary based on loan characteristics. For manually written loans, one-month reserve is required.

Mortgage Insurance Requirements

Standard MI requirements apply.

Special feature code

Please enter special feature code 124 for any Energy Efficient loan.

For More Information, contact

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You may also contact your Customer Account Manager at your Fannie Mae regional office:

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